



# Bulletin

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2007-05B

## **FY2008 BUDGET ISSUES AND PROCEDURES**

TO: Mayors and Selectmen City and Town Managers  
Boards of Assessors Exec. Secretaries and Finance Directors  
Auditors and Accountants City Solicitors and Town Counsel  
Collectors Reg. School District Committees  
Treasurers Reg. School District Superintendents

FROM: Gerard D. Perry, Director of Accounts

DATE: March, 2007

SUBJECT: FY2008 Budget Issues

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This *Bulletin* addresses several issues cities and towns may consider in development of budgets for FY2008.

### **Video Camera Monitoring of Motor Vehicle Violations**

The Bureau is aware that several communities are considering use of video camera monitoring systems to identify motor vehicle violations and that certain state agencies are in the process of reviewing necessary procedures to properly identify and report these violations. At this time, the Bureau is not aware of any final decisions in this matter.

For FY2008 tax rate setting purposes, the Bureau will not allow an estimated receipt from this source until these procedures under review by state agencies have been ruled upon and until the local government can document that it has properly employed them.

## **Massachusetts School Building Authority (MSBA) Reimbursements**

Please refer to MSBA's web site for a listing of FY2008 estimated payments. MSBA intends to post this information on its web page as in prior years. For FY2008 tax rate setting purposes, the Bureau will allow as an estimated receipt an amount (a) that is reported on MSBA's web site, and/or (b) that is indicated via separate correspondence from MSBA in excess of the web site amount.

City, town and regional school district financial managers should review Division of Local Services IGR 06-101 for instructions on the receipt of payments and should be reminded to properly reserve/apply these payments if a debt exclusion has already been voted by the city or town.

## **Self-Insurance Plans for Employee Health Insurance**

These self-insurance plans cannot be operated in the General Fund. M.G.L. Chapter 32B §3A must be adopted to properly operate such a plan and that section requires creation of an internal service fund known as the Claims Trust Fund accounted for in accordance with generally accepted accounting principles as established by the Governmental Accounting Standards Board (GASB).

Please be reminded of the provision of M.G.L. Chapter 61 of the Acts of 2004 that allows a three-year amortization of incurred but not reported claims (IBNR) beginning in FY2007 for cities, towns and regional school districts in fund balance deficit as of June 30, 2005 only. For FY2008 budget flexibility, the Bureau will require that:

- If the June 30, 2007 fund balance is not in deficit, no further amortization amount need be provided for in FY2008.
- If the June 30, 2007 fund balance is negative, the fund balance deficit amount only must be provided for.

## **Sale of Real Estate (M.G.L. Chapter 44 §63)**

M.G.L. Chapter 44 §63 allows for the proceeds from the sale of real estate acquired by other than tax title foreclosure to be placed into an available fund for appropriation toward certain restricted purposes. In FY2007, the Bureau noted several communities using this revenue source as an estimated receipt on the Tax Rate Recap. These communities were required to remove the estimate from the Recap and in some cases to return to its local appropriating authority for corrective action.

As in prior fiscal years, the Bureau will not allow this revenue source as an estimated receipt without special legislation.

## **Community Preservation Fund**

The Bureau expects about 100 cities and towns will use this option during FY2008. Based on the balance in the State Fund from surcharges at the Registries of Deeds, we expect that the matching funds to be awarded in October 2007 will again be equal to 100% of the surcharge levied by the city or town.

To reiterate a point from last fiscal year's letter, as a result of (a) a falloff in the number of deeds and related transactions, (b) an increased number of cities and towns participating and (c) an increase in the surcharge amount levied by each city and town, the duration of a 100% state match remains uncertain.

## **Certification of City, Town, District and Regional School District Notes and Receipt of Audit Reports**

Audit Reports of cities, towns and districts are required if receipt of federal funds exceed threshold amounts promulgated by the federal Office of Management and Budget. Audits of regional school districts are required under provisions of M.G.L. Chapter 71 § 16A. Again for FY2008, the Bureau of Accounts will not certify revenue notes of a city, town, district or regional school district if a required audit for the period ended June 30, 2006 has not been submitted.

## **Enterprise Funds – Allocation of Indirect Costs**

Costs incurred in General Fund departments to support enterprise activities may be allocated to the enterprise fund, if computed on a fair and consistent basis, and documented properly. In recent years, cases have arisen relative to allocation to an enterprise of costs incurred in prior fiscal periods, due to delays in beginning the enterprise's operations at the start of the fiscal year, or similar reasons. The Bureau feels that while such cases may have merit, restoring payments to the General Fund should be subject to reasonable limits.

No reimbursement of indirect, startup or allocated costs from a period greater than two prior fiscal years prior to the year at issue will be recognized as costs of the enterprise. Therefore, for FY2008, only reimbursements not already taken in a prior fiscal year for FY2007 and/or FY2006 apply.

## **Medicare Part D**

The Bureau has received many questions regarding the proper recording of Medicare Part D, especially in cities and towns with a self-insured health care trust fund. In 2006, GASB released an opinion indicating that this revenue source belongs to the General Fund. For FY2008 tax rate setting purposes, any city or town may estimate an amount for use on page 3 of the Tax Rate Recap. The estimated receipt should be reported as "Miscellaneous Non-Recurring", and will be reviewed by the Bureau using the same standard as other estimated receipts.

For June 30, 2007 purposes, this revenue source if previously reserved should be closed to the General Fund unless the city, town or regional school district was given specific Bureau guidance prior to GASB's opinion.

## **Free Cash/Excess and Deficiency Update and Non-Recurrent Distributions to Cities, Towns and Regional School Districts**

For the last two fiscal years, the Bureau has allowed cities and towns an opportunity to request from the Director of Accounts authority to reserve and appropriate non-recurrent distributions over a certain period of time.

Beginning July 1, 2007, cities, towns and regional school districts may request use of such a non-recurrent distribution through the free cash update process. M.G.L. permit inclusion of receipts attributable to prior years, principally collection of property taxes, up to March 31. This update to the amount previously certified provides additional spending authority based on such items, but must first be certified by the Director of Accounts prior to appropriation. The Director will not certify an additional amount if use of such funds could, in the Director's opinion, result in a negative free cash as of the following June 30<sup>th</sup>. Only one request may be made by a city, town or regional school district per fiscal year. If an amount is certified by the Director of Accounts and a negative free cash as of the following June 30<sup>th</sup> results, the city, town or regional school district may not request a similar update for the following fiscal year.

### **Regional School District Balance Sheet Required**

In January of 2007, the Board of Education adopted several new regulations, one in which now requires a regional school district to submit its Balance Sheet as of June 30<sup>th</sup> of any fiscal year to the Bureau of Accounts for certification of excess and deficiency. These regulations indicate that if a Balance Sheet is not filed timely, the Commissioner of Education may request of the Commissioner of Revenue to withhold all or some part of the quarterly distribution of state aid for that regional school district until a Balance Sheet is submitted.

Please be reminded that M.G.L. and the Board's regulation require such a Balance Sheet to be submitted to the Bureau on or before October 31<sup>st</sup> of each year. Annual Bureau instructions indicate the submission requirements. Audited Balance Sheets are not required, however, the submission must be in a format that will allow the Bureau to calculate an excess and deficiency amount. The Bureau will include with this fiscal year's instructions a list of Bureau of Accounts field representatives and the regional school districts they are responsible for. Please contact them if you have any questions in this matter.

### **Other Amounts to be Raised – Appropriated**

During the tax rate approval process, the Bureau has noted several communities attempting to raise in the tax levy prior and current fiscal year deficit amounts. Please be reminded that only certain prior and current fiscal year deficits, legal deficits that M.G.L. allow to be raised in the following fiscal year, may be raised on the Tax Rate Recap without city/town Council/Town Meeting appropriation action.

### **Levy Limits on the Website**

FY2008 levy limits for budget planning purposes are now available on the Division of Local Services' website. The levy limit calculation is the same as in prior fiscal years. Detailed instructions are also provided on the website. The instructions are updated to FY2008, but are in all other respects the same as in FY2007, except where noted on the cover page.

### **Budgeting for OPEBs**

The Bureau is aware that several cities and towns have been granted special legislation to create an account for OPEBs (Other Post-Employment Benefits). The Bureau, however, has not taken a position on any special legislation. Please be reminded of GASB's guidance that such an OPEB account be irrevocable in nature. Currently, there is no general law allowing the creation of such an account.